Voluntary _ Public

Date: 1/22/2018
GAIN Report Number: AS1802

Australia

Post: Canberra

Australian Wine Exports Soar under ChAFTA

Report Categories:
Wine
Trade Policy Monitoring

Approved By:
Rey Santella, Agricultural Counselor
Prepared By:
Roger Farrell, Agricultural Specialist

Report Highlights:
The China-Australia Free Trade Agreement (ChAFTA) implemented in 2015 reduced tariffs on an array of goods, including wine. Australian exporters have capitalized on the lower tariffs and since 2014 Australian wine exports to China increased to $723 million (140 million liters) from $250 million (40 million liters). In contrast, U.S. wine exports to China have remained subject to full duties and have been virtually unchanged over the past 5 years, peaking in volume terms at 17 million liters in 2014.

Overview

China is now the largest market for Australian wine exports in terms of value in large part due to the 2015 China-Australia Free Trade Agreement (ChAFTA). Over the last three years, China has doubled its wine imports totaling $2.8 billion and is currently the fourth largest market for global wine imports for the year ending November 2017 (Global Trade Atlas). During this period, Australian wine exports to China increased to $723 million (140 million liters), up from $250 million (40 million liters) in 2014.

China's consumption of wine has been driven by rising household incomes with consumers shifting their preferences to wine from beer or spirits. According to trade sources, consumption per capita is increasing with each consumer drinking one liter of wine on an annual basis, compared with mature markets where consumers drink 20 liters a head per year. Chinese consumers reportedly view imported wines as a safer and better tasting product than domestic wine.

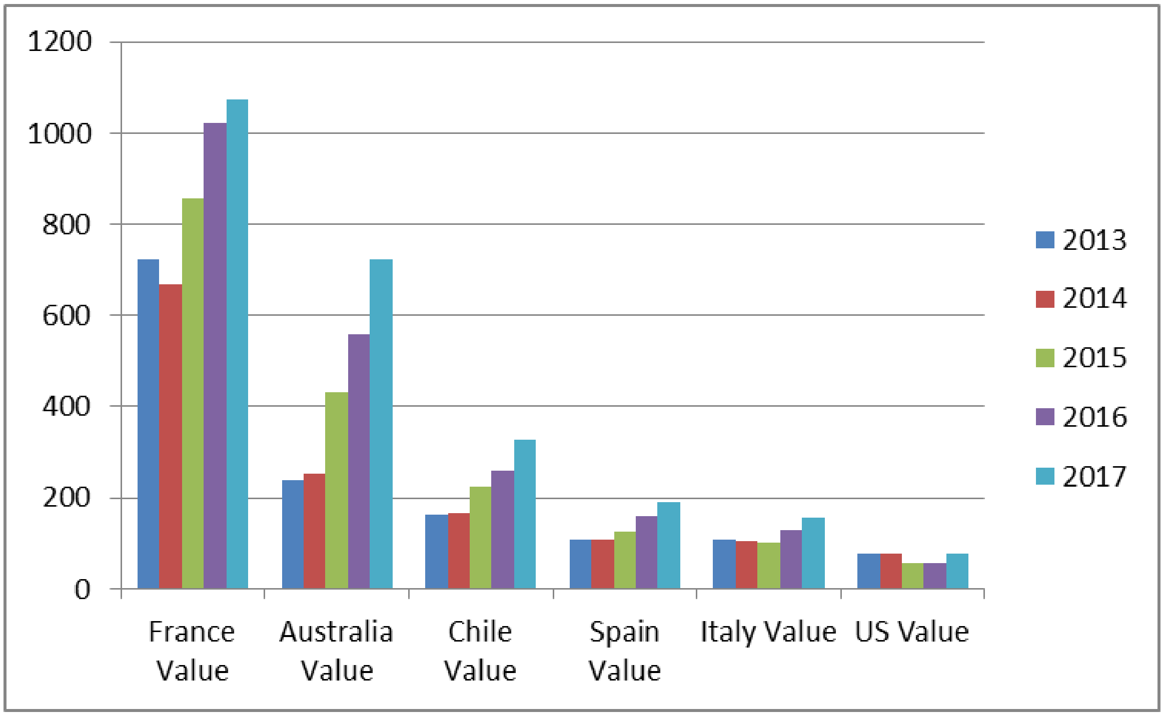
The Role of the China-Australia FTA

Since the implementation of ChAFTA in 2015, reduced tariffs have improved the competitiveness of the Australian wine industry and boosted overall sales to China. The tariff on bottled wines for countries without a China FTA, such as the United States, is 14 percent, while the tariff on Australian wines under ChAFTA has gradually fallen to 2.8 percent in January 2018 and is expected to decrease to zero in January 2019. In addition, China's tariff on bulk wine imports (over two liters) for countries without a China FTA is 20 percent, but Australia's rate dropped to 4 percent in January 2018 and is expected to be zero in January 2019. In contrast, the value of U.S. wine exports to China, which face higher tariffs, has somewhat stagnated, peaking at $78 million in 2017.

China is now the leading destination for Australian wine exports, in value terms, ahead of the United States and the European Union. Bottled wine accounts for around 95 percent of Australian wine exports to China, with red wine varieties making up 90 percent of the total. In 2017, China accounted for 40 percent of all Australian wine exports priced over $7.50 per liter, according to Wine Australia.

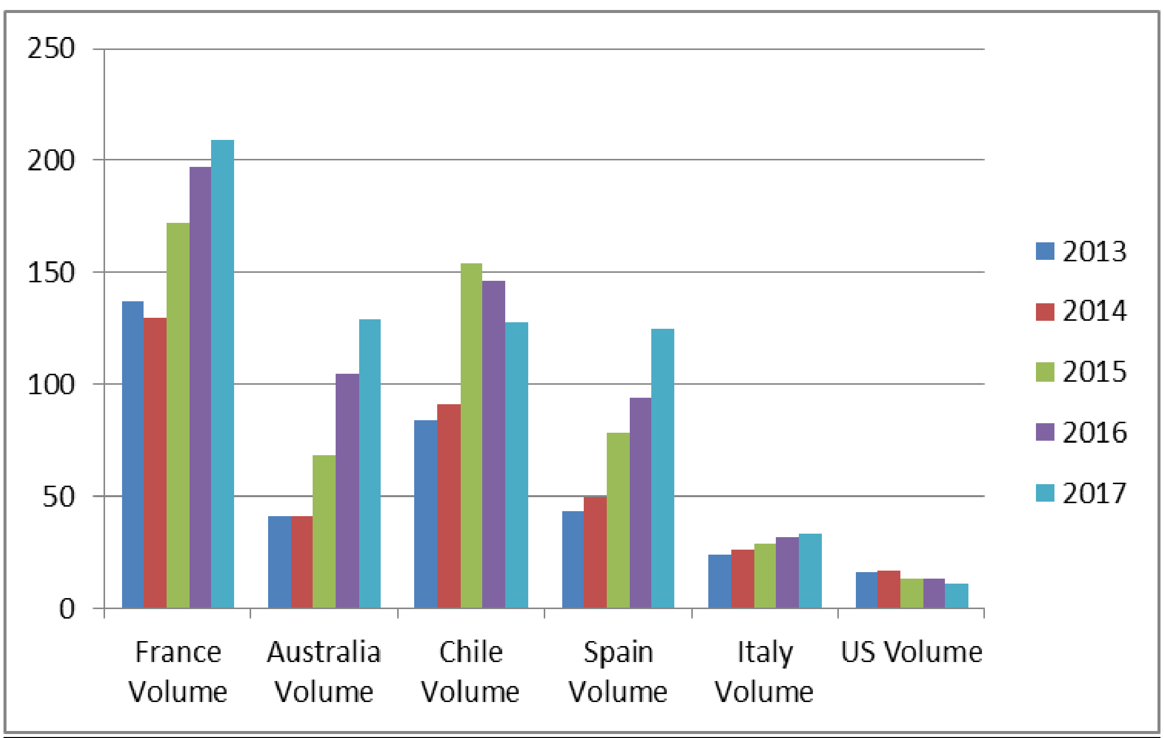
The lower tariffs on Australian wines also strengthened the competitiveness of Australian exporters vis-à-vis Chilean and New Zealand wine exporters, which had already benefited from their own free trade agreements with China.

Chart 1: Wine Exports to China by value 2013-17 ($ million)



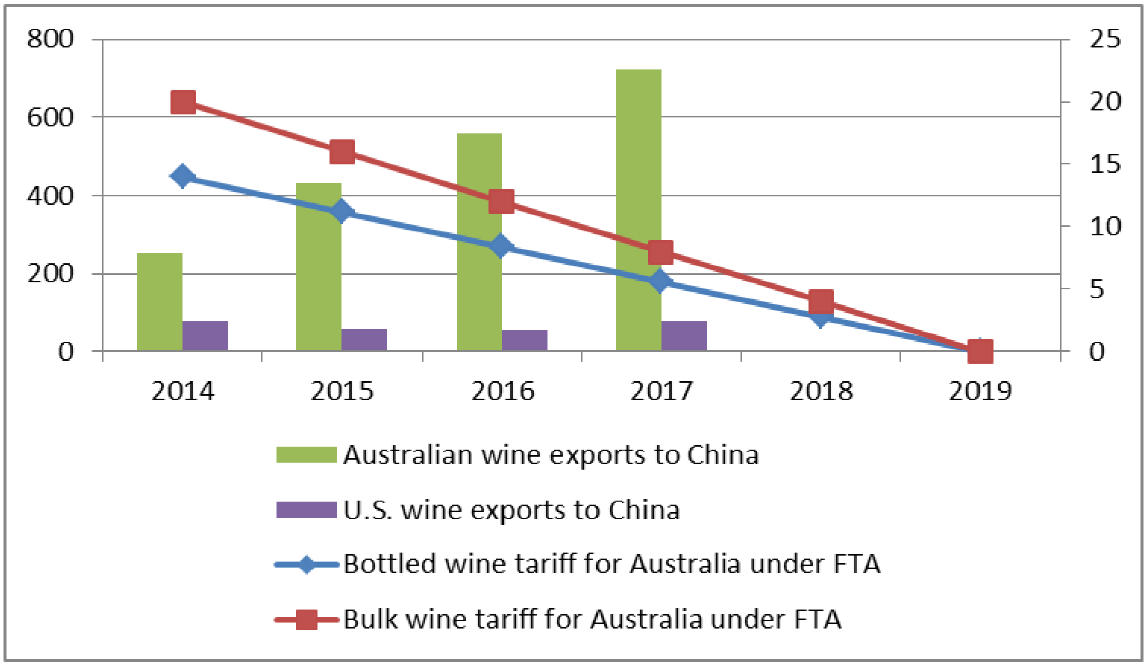
Source: Global Trade Atlas (2018)

Chart 2: Wine Exports to China by volume, 2013-17 (million liters)



Source: Global Trade Atlas (2018)

Chart 3: Australian wine exports to China and tariff rate reductions under ChAFTA, 2014-2019 ($million (LHS) and tariff rates (RHS)



Source: Global Trade Atlas and Australian Department of Foreign Affairs and Trade

Chinese Investment in the Australian Wine Industry

Chinese investments in the Australian wine industry, thus far, have been limited compared to the large investments in France. Chinese investors in Australia's wine industry often have existing partnerships with domestic businesses. Industry sources indicate that ensuring stable supplies to China and protecting brand authenticity have been motivating factors for these investors. Apart from direct investments, Chinese companies have also entered into new distribution agreements. Table 1 illustrates some of the Chinese investments and partnerships in the Australian wine industry.

Table 1: Selected Cases of Chinese Investment in the Australian Wine Industry

Year	Chinese Investor	Australian winery or vineyard
2013	Song Yuangan	Chinese property developer Song Yuangan invested A$30 million in Gemtree winery in McLaren Vale in New South Wales (NSW).
2013	Private investors	Chinese private investors acquired the Chateau Yaldara winery at Lyndoch for A$15 million.
2013	Tianma Bearing	Tianma Bearing Company acquired the Ferntree Vineyards in Western Australia for A$15.5 million.
2014	Yinda Investment	Yinda Investment acquired a majority stake in Hollick Wines in the Coonawarra region of South Australia.
2014	Lu Zhou Lao Jiao	Chinese liquor producer, Lu Zhou Lao Jiao invested in Shottesbrooke Vineyards, in McLaren Vale. The company is China's third largest producer of the popular alcoholic beverage bai jiu (from sorghum).
2016	Weilong Grape Company	Vineyard purchases around Mildura and Swan Hill in Victoria and NSW for A$13.4 million. Weilong is also building a wine-making facility in Mildura to process 60,000 metric tons of grapes annually. Weilong reportedly aims to invest A$120 million in the Australia's wine industry.
2017	Jia Yuan Hua	Purchased Max's Vineyard for A$3 million
2017	YesMyWine	Acquired 15 percent share of the Australian Vintage Company totaling A$16.5 million.
2017	Qingdao Wines	Acquired shares of Belvidere Winery in South Australia, with 18 million liter storage capacity.

Source: Media and company reports.

Direct wine sales through supermarkets, wine cellars, and convenience stores have increased, as have online sales in China. Major online platforms for wine purchases include sites such as www.yesmywine.com, which is owned by China's largest online wine retailer.